



Pennsylvania Business Survey

October 1989

AUGUST BRINGS FURTHER SIGNS OF SOFTNESS

Economic sluggishness is evident practically across the board in Pennsylvania during August. Nothing on the horizon suggests that conditions are likely to change appreciably over the near-term. A batch of good news at the national level during mid-summer appears to have halted, at least temporarily, efforts by the Federal Reserve to ease interest rates lower which would have spurred additional activity. But recent weakness has done little to subtract from record levels of activity across several sectors of the Commonwealth's economy. Conditions could be considerably worse six or seven years into the recovery. Additionally, the State's economy has exhibited signs of faltering in the past, only to accelerate and keep the expansion alive.

Past issues of the *Pennsylvania Business Survey* have tended to look at the 1987-1988 period in positive terms. Trends in average annual pay tend to back up such a contention. While average pay in Pennsylvania still falls slightly below nationwide norms, a fair amount of ground has been made up in the past two years (table). In 1986, average pay in Pennsylvania was just 97.2 percent of the U.S. average. As of 1988, the \$21,845 average annual pay level (99.9 percent of the U.S.) is essentially equal to the national average. Of the nine broad industry groups shown, eight saw pay levels increase in proportion to the nation over the 1986-1988 time frame.

Despite a drop in the jobless rate to a seasonally adjusted 4.3 percent, down 0.2 point from July, trends on the employment front back up the sluggish scenario put forth above. Following the largest monthly drop in employment since 1980 during July, August brings with it an additional decline totaling around 40,000, seasonally adjusted. This brings the drop in employment over the past two months to over 150,000. At a seasonally adjusted 5,520,000, the number of Pennsylvanians officially listed as employed in August is below year-ago readings for the first time since April 1987.

Recent trends, however, probably paint an overly pessimistic picture of the economy's true health. A string of employment declines of the magnitude of those recorded the past two months is not in the offing. Resident employment indicators tend to be quite volatile, with wide monthly swings. A surge in the number of employed over the next month or two cannot be ruled out. Additionally, despite recent sluggishness, employment is up on a year-to-date basis by 175,000 or 3.2 percent, the second strongest percentage gain of the decade. Still, growth is slowing. After coming in at 4.5 percent in the first quarter of this year, year-over-year employment growth came in at 3.8 percent in the

second quarter before falling to 1.6 percent in July and -0.5 percent in August.

Also among the batch of statistics and trends which fall in line with the sluggish scenario are those relating to retail activity. For July, retail sales totaled nearly \$6.6 billion, down from June after seasonal adjustment but up 2.4 percent from a year ago. Over the same annual period, however, consumer prices are up more than twice as much, implying a decline in "real" sales. So far this year, sales are up 2.5 percent compared to the first seven months of 1988. Leading the way has been sales of nondurable goods which are up 5 percent. As in recent months, drug-related

Average annual pay trends: PA and the U.S. (dollars)

	1988		PA as a pct. of U.S.	
	PA	U.S.	1988	1986
Total	21,845	21,871	99.9	97.2
Mining	31,843	34,341	92.7	90.3
Construction	25,509	24,432	104.4	102.9
Manufacturing	26,320	26,916	97.8	96.9
Trans., comm., and pub. util.	27,986	28,201	99.2	99.8
Wholesale trade	27,131	27,843	97.4	95.4
Retail trade	11,256	11,965	94.1	92.4
Fin., ins., and real estate	25,595	27,691	92.4	92.1
Services	19,525	19,984	97.7	96.9
Government	23,063	23,021	100.2	99.0

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

Pennsylvania retail sales
(millions of dollars; pct. chg. from year ago)

	July	Pct. chg.	Year-to-date	Pct. chg.
Total	6,586	2.4	44,946	2.5
Durables	2,493	0.9	16,690	- 1.6
Bldg. mat.		- 5.2		- 3.6
Auto dlrs.		- 2.6		- 6.9
Furniture		14.0		20.4
Other		11.7		8.0
Nondurables	4,093	3.4	28,256	5.0
Gen. mdse.		0.3		- 0.4
Food/grocery		1.2		4.6
Gas		5.0		4.6
Apparel		2.5		5.2
Eat/drink		0.0		5.5
Drugs		14.7		13.8
Other		18.4		9.0

Seas. adj. total: July	6,630
June	6,735

Source: Tot./Dur./Nondur.-U.S. Dept. of Commerce, Bur. of the Census.

Seas. adj. total-PSU, Ctr. for Reg. Bus. Analysis.

Data in the sub-categories of the durable and nondurable groups are subject to relatively large sampling variability. As a result, only pct. changes are shown.

sales have shown exceptional strength. The news is not nearly as good on the durable goods side where sales are down 1.6 percent so far in 1989. Automotive-related sales are off nearly 7 percent. Jobs in retail trade establishments are off for the third straight month on a seasonally adjusted basis in August and the fifth time in the past six months. August job levels, at 882,000, are below year-ago readings for the first time since February 1983.

There has been a reversal in Pennsylvania retail sales trends in 1989. **Between 1983 and 1988, growth in durable goods sales exceeded gains on the nondurables side (chart). In every month this year but January, nondurable goods sales growth has surpassed that for durable goods.** In four of the past six months, durable goods sales are below a year ago. Durable goods sales are also quite volatile relative to

New Pennsylvania building permit authorizations (percent change from year ago)

	August	Pct. chg.	Year- to-date	Pct. chg.
Residential	4,333	- 12.3	32,562	- 16.9
Nonresidential	2,214	- 10.0	15,708	- 5.2

Source: U.S. Dept. of Commerce, Bureau of the Census.

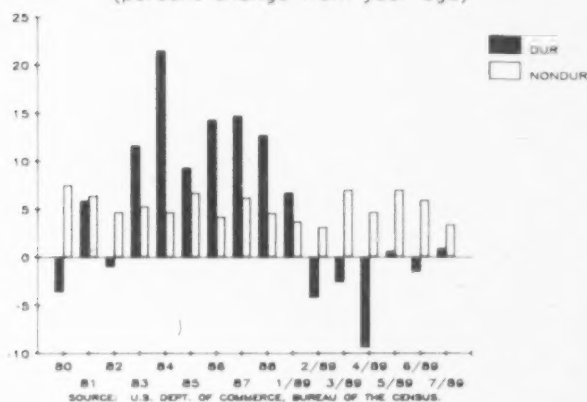
the nondurables side. Between 1980 and 1988, durable goods sales growth ranged from a 3 percent decline to a 20 percent gain. Growth in nondurable goods sales fell in a narrow range around 5 percent.

Indicators of the health of the construction industry are mixed. While job levels remain at record highs, measures of activity point to continued sluggishness. Contract valua-

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1989		1988	1989		1988	1989		1988
	July	August	August	July	August	August	July	August	August
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)	5,108*	5,099	5,051	5,095*	5,080	5,045	111.6	111.3	110.5
Nonmanufacturing									
No. of wage and salary jobs (thous.)	4,045	4,026	3,989	4,039	4,027	3,989	125.3	124.9	123.8
Mining	22	28	29	22	28	29	44.8	57.5	59.8
Contract construction	260*	262	253	241*	243	234	131.2*	131.8	127.2
Transportation	143	143	142	148	148	147	91.8	92.0	91.5
Public Utilities	105	91	106	104	90	105	102.8	89.2	104.4
Wholesale trade	273	272	271	270	271	269	122.0	122.0	121.4
Retail trade	886	882	886	884	879	883	123.3	122.6	123.1
Finance, insurance & real estate	301	300	296	297	296	292	136.3	136.2	134.4
Service & miscellaneous	1,386	1,383	1,339	1,378*	1,381	1,336	159.8*	160.1	154.9
Federal government	140	140	141	139	140	140	108.6	109.0	109.4
State & local government	530	526	527	550	552	553	94.3	94.7	94.8
Manufacturing									
No. of wage and salary jobs (thous.)	1,055*	1,058	1,061	1,056*	1,053	1,055	78.7*	78.5	78.6
Durable goods	602	599	604	602*	598	603	74.3*	73.8	74.4
Nondurable goods	453	459	457	456	456	453	85.7	85.6	85.1
Ave. wkly. hrs. worked by prod. workers	40.4*	40.5	40.8	40.6*	40.6	40.9	102.7*	102.7	103.5
Total wkly. person-hours worked (mils.)	29.3*	29.6	29.7	29.5*	29.6	29.6	76.9*	77.0	77.2
Total wkly. payroll (mil. dols.)	309.9*	311.9	303.9	313.4*	313.2	305.1	139.5*	139.4	135.8
Average hourly earnings (dollars)	10.57	10.54	10.25	10.59	10.59	10.30	181.0	181.1	176.0
Average weekly earnings (dollars)	427.03	426.87	418.20	430.47	429.88	421.29	186.1	185.8	182.1
Steel production (thous. tons)	941	917	1,090	n.a.	n.a.	n.a.	45.2	45.8	54.6
Industrial electric power sales (mil. kwh)	3,748	3,900	4,026	3,734	3,768	3,860	101.1	102.0	104.5
Mining									
Anthracite coal (thous. net tons)	211	334	360	220	283	301	45.1	57.9	61.5
Bituminous coal (thous. net tons)	4,154	6,268	6,428	5,064	6,194	6,152	71.8	87.8	87.2
Construction contracts awarded (mil. dols.)									
Total	851.3	954.4	808.2*	814.9	789.6	721.9*	253.3	245.4	224.4*
Residential building	379.6	442.7	429.6*	351.6	355.0	356.4*	249.8	252.2	253.2*
Nonresidential building	317.0	357.2	277.3*	327.3	307.2	239.8*	301.7	283.1	221.0*
Nonbuilding (utilities and public works)	154.7	154.4	101.3*	136.0	127.4	125.7*	187.6	175.7	173.4*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,684	5,686	5,713	5,561	5,523	5,552	115.7	114.9	115.5
Unemployed									
No. of persons (thous.)	277	233	250	261	246	263	65.1	61.4	65.7
Rate (percentage of labor force)	4.6	3.9	4.2						
Rate, seasonally adjusted				4.5	4.3	4.6			
Civilian labor force, no. of persons (thous.)	5,961	5,919	5,963	5,822	5,769	5,816	111.8	110.8	111.7
Initial claims for unemployment benefits	93,305	72,789	64,065	90,118	93,436	79,023	62.9	65.3	55.2
Consumer Prices, all items									
	Urban Indexes (1982-84 = 100)			Percentage Change					
	1989		1988	Month	Year				
	July	August	August	Ago	Ago				
U.S. city average	124.4	124.6	119.0	+ 0.2	+ 4.7				
Philadelphia	129.3	129.1	123.9	- 0.2	+ 4.2				
Pittsburgh	n.a.	120.8	115.3	n.a.	+ 4.8				

* Total includes workers on strike. * = figure revised † = figure for June 1988 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

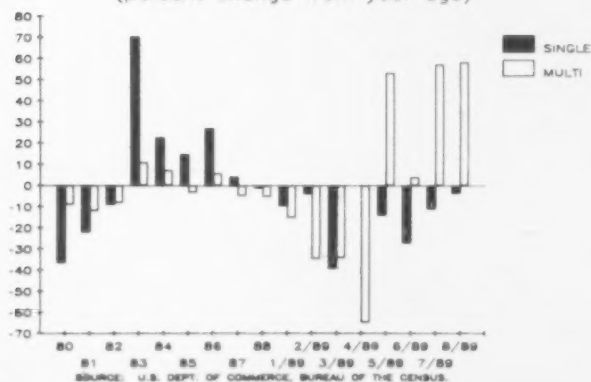
PA DURABLE AND NONDURABLE RETAIL SALES GROWTH
(percent change from year ago)



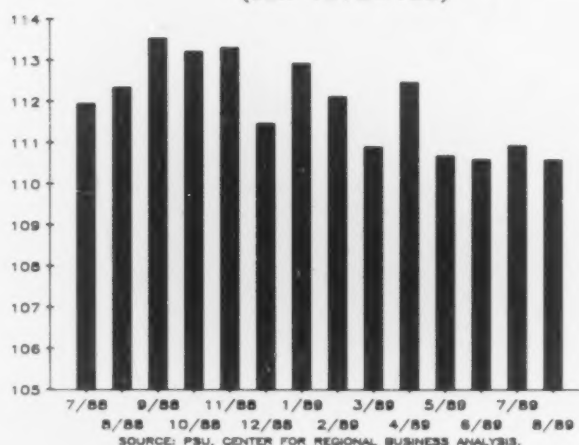
tions are down a bit from July after seasonal adjustment but are above a year ago. New building permit authorizations are down on both the residential and nonresidential sides. The single-family sector led the upsurge in residential construction activity earlier in the decade (chart). **Growth in single-family activity slowed considerably beginning in 1987, and so far this year permit authorizations are down from year-ago readings.** Trends in the multi-family sector have been quite variable so far this year. After coming in considerably below year-ago levels during the first four months of 1989, permit authorizations have been up by more than 50 percent in three of the past four months.

Trends in nonmanufacturing job levels are deceiving. The drop of 19,000 jobs from July to 4,026,000 occurs in a month when the number of positions typically falls by just 7,000 strictly for seasonal reasons. However, labor disputes in the public utilities industries, where jobs are off by 14,000 from July, account for most, if not all, of the shortfall. Job levels in these industries will rebound in September. Not only did mining jobs rebound by a seasonally adjusted 6,000 in August following a period of labor unrest, but the amount of coal mined is up by more than one fifth after adjustment for normal seasonal ups and downs. Excluding the mining and public utilities categories, job levels are up from July on a seasonally adjusted basis in five of the eight industries tracked and are unchanged in a sixth.

PA SINGLE-FAMILY AND MULTI-FAMILY HOUSING PERMIT GROWTH
(percent change from year ago)



PENNSYLVANIA COMPOSITE INDEX
OF LEADING INDICATORS
(Jan 1972=100)



Pennsylvania Composite Indexes

	Index		Percentage Change from Preceding Month	
	Leading	Coincident	Leading	Coincident
December 1988	111.5	85.8	-1.6	-0.5
January 1989	112.9	87.3	1.3	1.7
February	112.1	86.9	-0.7	-0.5
March	110.9	87.0	-1.1	0.1
April	112.5	86.0	1.4	-1.1
May	110.7	85.1	-1.6	-1.0
June	110.6	85.3	-0.1	0.3
July	110.9	84.8	0.3	-0.6
August	110.6	84.5	-0.3	-0.4

As anticipated in last month's *Survey*, manufacturing jobs trended down in August following July's impressive, yet unexplained, performance. Factory job levels are up by only one-half the amount expected in July in rising by 3,000 to 1,058,000. The end result is a seasonally adjusted decline. Based upon the Pennsylvania Manufacturing Activity Index, output is, at best, holding its own at post-recession highs. While not pointing to a free fall, other indicators of manufacturing activity, mostly dealing with earnings, hours worked, and payroll trends, also point to a factory sector that is barely holding its own.

Although better than earlier in the decade, manufacturing job trends of late leave considerable room for improvement. Over the 1980-1988 period, manufacturing job levels declined in all but two years. During the seven years in which job levels declined, losses averaged 50,000 per year, ranging from 4,900 in 1987 to 128,500 in 1982. As the economy recovered in 1984, jobs rose by 26,100, but only temporarily. In 1988, job levels rose by 11,800. However, it is safe to say a significant portion of the gain was the result of labor unrest in the steel industry during the first half of 1987 which helped to "artificially" depress job readings. It is questionable as to whether or not the gain was reflective of the factory sector's underlying health. Indeed, job gains lessened considerably as 1988 came to a close. By May of this year, job levels were once again below year ago readings, where they have been for much of the decade, and trending down.

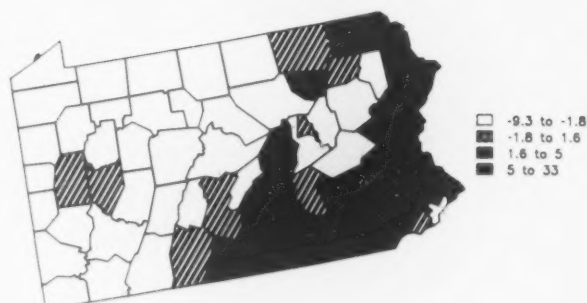
The outlook, although not exactly gloomy, does not point to any surge in activity in the foreseeable future in Pennsylvania. At the same time, a recession is not in sight, despite the fifth decline in the Pennsylvania composite index of leading indicators in the past seven months (chart). Activity may be slowing a bit, but it is slowing from a rather lofty peak which gives the economy a bit of a recessionary "cushion."

While the last several years have been characterized by economic recovery in Pennsylvania, it is difficult to deny that some troubling problems remain. Over the 1980-1987 period, 200,000 more people left the Commonwealth than moved into the State. This translates into 1.7 percent of the 1980 population. While individuals moved for a variety of reasons, perhaps the most prevalent reason concerns a perceived lack of economic opportunity on the part of many (former) Pennsylvanians. Essentially the entire western half of Pennsylvania realized a net outflow of residents over the period (chart). The only regions that managed to attract more people than it lost were southeastern Pennsylvania where economic displacement has not been nearly as severe as in the west, and in the extreme northeast.

— William D. Anderson

The Pennsylvania State University, in compliance with federal and state laws, is committed to the policy that all persons shall have equal access to programs, admission, and employment without regard to race, religion, sex, national origin, handicap, age, or status as a disabled or Vietnam-era veteran. Direct all affirmative action inquiries to the Affirmative Action Office, 201 Willard Building, University Park, PA 16802; (814) 863-0471.
U.Ed. 90-128

1980-1987 NET MIGRATION BY COUNTY
(percent of 1980 population)



SOURCE: PA STATE DATA CENTER; U.S. BUREAU OF THE CENSUS.

Pennsylvania Business Survey

October 1989

Vol. 30, No. 10

Published monthly by the Division of Research of the College of Business Administration, 103 Business Administration Bldg. II, The Pennsylvania State University, University Park, PA 16802. Subscription rate: \$10.00 a year. (ISSN 0031-4382)

J.D. Hammond, Dean of the College
Paul H. Rigby, Associate Dean for Research and Graduate Programs
Rodney A. Erickson, Director of the Center for Regional Business Analysis and Associate Director of the Division of Research
William D. Anderson, Assistant Director of the Center for Regional Business Analysis
Doris J. Bickle, Staff Assistant
Mary Jane Corman, Subscription Coordinator

The content of this publication is not copyrighted and may be reproduced freely, but acknowledgement of source will be appreciated.

PENNSYLVANIA BUSINESS SURVEY

Division of Research of the
College of Business Administration
The Pennsylvania State University
University Park, PA 16802

ADDRESS CORRECTION REQUESTED

Nonprofit org.
U.S. Postage
PAID paid
The Pennsylvania
State University

* 018-01-12002
* SRI
CONGRESSIONAL INFO SERVICE
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814